

WATER/ICRJ/FLC/KKL/MXK/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4418
September 4, 2003**

R E S O L U T I O N

RESOLUTION W-4418. CENTRAL CAMP WATER COMPANY, INC. (CCWC). REQUEST TO SECURE A LOAN IN THE AMOUNT OF \$24,000 PAYABLE WITHIN ONE YEAR, AND TO ADD A SURCHARGE TO WATER RATES TO REPAY THE LOAN PRINCIPAL AND INTEREST.

By Advice Letter (AL) No. 13 filed on July 29, 2003.

SUMMARY

This Resolution authorizes CCWC to place in effect a surcharge on existing water rates to repay the principal and interest of a one-year loan in the amount of \$24,000. The loan will be used to pay for the costs of drilling an additional well to provide adequate water during peak periods.

A notice of the proposed rate surcharge was mailed to each customer on May 27, 2003. No protests were received. Subsequently, a town hall meeting was conducted on June 19, 2003 at North Fork, California.

Notice of AL No. 13 was made by publication in the Commission's Daily Calendar of August 1, 2003.

BACKGROUND

CCWC is a Class D water utility subject to the jurisdiction of this Commission. CCWC provides water six months of the year (May through October) to 77 connections in a mountain resort located in the unincorporated area known as Central Camp, and vicinity in Madera County.

The elevation of CCWC is approximately 5,500 feet. The water supply is provided by two low yielding wells that pump into a 33,000-gallon storage tank. The water is supplied to the various residences through piping from the tank.

Well No. 1 is located near the south central border of the Central Camp property. This well was drilled in 1993 to a total depth of 700 feet and reported to initially produce 8 gallons per minute (gpm) of water. Current production of Well No. 1 is reported at about 2 gpm.

Well No. 2 is located in the west-central portion of the Central Camp property. This well was drilled in 1993 to a depth of 600 feet. This well is reported to currently produce between 7 gpm and 30 gpm, depending on the time of the season and pumping duration.

During peak demands, such as the 4th of July weekend, the two wells cannot meet demand. At these times, supplemental surface water is obtained from Sand Creek. The Madera County Environmental Health Department (Health Department) has advised CCWC that all untreated surface water, such as water from Sand Creek, is considered to be contaminated with Giardia and Cryptosporidium Oocysts. However, since there is no treatment plant to treat the surface water, CCWC has been given permission by the Health Department to use the water from Sand Creek under a “boil water order”.

Pursuant to its Year 2002 Annual Report, CCWC reported that it generated total operating revenues of \$23,037 and net income of \$1. The company's balance sheet is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 53,053
Other Investments	2,267
Current Assets	6,814
Other Current Assets	<u>23,582</u>
Total Assets	<u>\$ 85,716</u>
<u>Liabilities & Equity</u>	
Capital and Retained Earnings	\$ 7,260
Long-Term Debt	67,228
Current and Accrued Liabilities	<u>11,228</u>
Total Liabilities & Equity	<u>\$ 85,716</u>

NOTICE AND PROTESTS

CCWC notified its customers on May 27, 2003 of its proposed water system improvements, a proposed loan, and the surcharge to repay the loan.

Subsequently, a public meeting was held in North Fork on June 19, 2003 to address the need for an additional source of water, compliance with the standards for drinking water, the cost of the well project, proposed solutions, the proposed loan, and the surcharge rate to repay the loan. Approximately 25 customers attended the meeting. CCWC's manager, Commission staff, and a representative from the Health Department were present to address customer inquiries and concerns.

The customers raised questions on the leaking distribution system, use of untreated surface water as back up supply, and the condition and age of the system pipes.

On July 3, 2003, a letter from a customer was received requesting that the Water Division monitor the system improvements of CCWC. No other concerns were received from other customers after the town hall meeting.

Staff finds nothing in the customer's concerns that would require the Commission to reject CCWC's request. Public interest dictates that the utility should have the ability to provide safe and reliable water to its customers.

DISCUSSION

On December 12, 2002, CCWC was issued a Notice of Violation by the Health Department. CCWC was directed to submit a plan to the Health Department to improve the water system so that it will be able to provide a reliable and consistent water supply that meets all water quality standards.

During the last eight years, including 2002, CCWC has occasionally delivered non-potable surface water from Sand Creek to its customers during peak periods to supplement potable well water. This makes available adequate water supply to customers. Although customers were properly notified that their water was not potable and should be boiled before drinking, untreated creek water was provided to them only when the two existing wells could not meet water requirements. Attempts at encouraging conservation have failed to adequately ameliorate the supply problem.

CCWC's initial plan to the Health Department was to build a treatment plant for the creek water that adequately supplies CCWC for over 70 years. The capital cost and annual operating cost of the plant is estimated at over \$70,000 and \$13,000 respectively. Unfortunately, CCWC cannot secure funding for the project and the annual cost is extremely high for a water company the size of CCWC. Alternatively, CCWC is now looking for

possible locations to drill a well to meet water requirements instead of building a costly treatment plant.

Kleinfelder, Inc., a hydrogeology consulting firm, conducted a well siting assessment for CCWC and identified four possible well locations.

According to the Kleinfelder report, the preferred site for the new well could interfere with production from Well No. 2 and vice-versa. It recommends that water levels in Well No. 2 be monitored during test pumping of the new well, either during drilling (possibly using airlifting) or after the well is completed. If interference is observed, several options may be available, depending on the severity of the interference. The options could range from abandoning the new well to devising a pumping strategy for Well No. 2 and the new well that still results in an increase in overall water supply to CCWC. If the preferred location is unacceptable, another location was identified. This would likely not have the interference issues as those associated with the preferred location, but the back-up location is more likely to produce less water, or turn out to be a dry hole.

Although treating surface water is an option and an assured way of increasing the water supply, the associated capital and operating costs are high. Drilling a well is a risky proposition, but the cost is a fraction of the capital required for a treatment plant. CCWC's distribution system also leaks but locating the leaks is difficult. Replacing the entire distribution, which will result in reducing water losses, would cost about \$250,000.

CCWC's estimated cost to drill an additional well follows:

<u>Description</u>	<u>Total</u>
Drilling of well	\$10,000
Power	3,000
Water pump and control panel	6,000
Trenching, pipe and wiring	<u>5,000</u>
Total Cost	<u>\$24,000</u>

CCWC proposes to secure a \$24,000 loan from Sandra L. McDougald, Jon E. Norby, David S. Norby and Richard A. Norby at an interest rate of 1.5% per repayment period, with a term of one year.

The loan principal and interest will be repaid in three equal payments within one year, at an estimated amount of \$8,241.19 per repayment period.

The consent of the Commission for the financing authority requested in the AL is not necessary because it involves a debt payable for a period of not more than 12 months (see Public Utilities (Pub. Util.) Code § 823(b)). However, the request for a surcharge represents a rate increase to customers and therefore, Commission approval of this Resolution is required.

PROPOSED SURCHARGE RATE

CCWC's present residential flat rate of \$200 per year for a single-family residential unit, including premises, for a period covering May through October was authorized by Resolution W-3939 effective September 18, 1995.

In addition to their annual bill, customers are responsible for an annual surcharge of \$96.25 to repay a 20-year loan from the State Department of Water Resources (DWR) established by Decision (D.) 93-09-064 dated

September 17, 1993 and D.95-02-007 dated February 8, 1995. The loan was obtained to develop additional wells and to build pipelines and a storage tank.

The proposed surcharge rate schedule follows:

	<u>Proposed Surcharge</u>
1 st Payment	\$107.03
2 nd Payment	107.03
3 rd Payment	107.03

The surcharge requested would significantly increase the annual water bill for one year only from \$296.25 to \$617.34 or 108%. The surcharge for the proposed project should be authorized and made effective 90 days after the effective date of this Resolution to enable the utility to generate revenues prior to the first loan repayment period. Thereafter, the remaining payments will be billed ninety days apart.

We have reviewed CCWC's proposed use of the proceeds and have determined that it is for proper purposes and is for the public good. As a public utility, CCWC has the responsibility to maintain its quality of service and to provide an adequate supply of safe and potable water.

The proposed well will enable CCWC to comply with the requirements of the Health Department and is the most economical way of obtaining additional water.

CCWC may institute a surcharge with the following conditions:

1. The loan repayment surcharge should be separately identified on customers' bills.
2. The utility plant financed through the surcharge should be permanently excluded from rate base for ratemaking purposes and the depreciation on this plant should be

recorded in memorandum accounts for income tax purposes only.

3. The surcharge collected should only be used to pay the loan principal and interest.
4. CCWC should notify the Water Division within 15 days of completion of the proposed well.
5. The Water Division will conduct an inspection of CCWC's water system within 60 days of notification of completion.

FINDINGS

1. The proposed water system improvements are needed to obtain an additional source of water supply.
2. The proposed surcharge is designed to generate approximately \$24,723.93 to repay the principal and interest on the proposed loan.
3. The proposed rate surcharge will increase the water rates by 108% for one year for all of CCWC's customers.
4. The Health Department ordered CCWC to initiate a project to provide an additional source of supply.
5. The proposed borrowing is for proper purposes.
6. The rate surcharge to be established to repay the loan would be payable in three equal payments to be billed 90 days apart. The surcharge would not be commingled with other utility charges.
7. The increase in rates authorized by this Resolution is justified and reasonable.

8. The utility plant financed by this loan should be permanently excluded from rate base for ratemaking purposes.
9. The first billing of the surcharge should begin no earlier than 90 days from the effective date of this Resolution.

THEREFORE, IT IS ORDERED that:

1. Central Camp Water Company, Inc. is authorized to file in accordance with General Order No. 96-A, and make effective on five days' notice, but not earlier than 90 days from the effective date of this Resolution, an advice letter which implements the rate surcharge attached to this order as Appendix A.
2. The rate surcharge authorized herein shall be payable in three equal payments to be billed 90 days apart.
3. As a condition of the rate increase granted herein, Central Camp Water Company, Inc. shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the surcharge account when ordered by the Commission.
4. Central Camp Water Company, Inc. shall file with the Water Division a copy of the promissory note or related documents within 15 days after execution.
5. The plant financed in this Resolution shall be permanently excluded from rate base for ratemaking purposes.
6. Central Camp Water Company, Inc. shall notify the Water Division in writing within 15 days of the project completion.
7. The Water Division shall conduct an inspection of Central Camp Water Company's water system 60 days upon notification of completion.

8. The Advice Letter and tariff sheets shall be marked to show that Resolution W-4418 authorized them.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 4, 2003. The following Commissioners approved it:

WILLIAM AHERN
Executive Director

APPENDIX A
Schedule No. 2RS
SEASONAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential flat rate water service furnished on a seasonal basis.

TERRITORY

The unincorporated area known as Central Camp, and vicinity, Madera County.

RATES

	Per Service Connection	
	<u>Per Year</u> (T)	
	<u>SDWBA Surcharge</u>	
For a single-family residential unit, Including premises for the period May thru October 15	\$200.00	\$96.25

SPECIAL CONDITIONS

1. The seasonal charge is due in advance on or before May 1 of each year.
2. The utility at its option may commence service prior to May 1 and may continue service later than October 15.
3. The Safe Drinking Water Bond Act (SDWBA) surcharge is in addition to the regular water bill. The total surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California SDWBA loan authorized by Decision 93-09-064.
4. As authorized by Resolution W-4418, all seasonal residential flat rate service (N)
customers are subject to a total surcharge of \$321.09 payable in three equal |
payments of \$107.03 to be billed 90 days apart. This surcharge is in |
connection with the financing of the costs to locate additional source of |
water. This surcharge is in addition to the water bill and the SDWBA |
surcharge. (N)
(D)
5. All bills are subject to the reimbursement fee set forth in Schedule No. UF.